

BUDGET LETTER

SUBJECT: EXPENDITURE AUTHORIZATION CONTROLS	NUMBER: 20-22
REFERENCES: 2020 BUDGET ACT (CHAPTERS 6 AND 7, STATUTES OF 2020)	DATE ISSUED: July 17, 2020
	SUPERSEDES: BL 19-12

TO: Agency Secretaries
Department Directors
Departmental Budget and Accounting Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

I. GENERAL POLICY

State policy must be administered in accordance with the plan of expenditures approved by the Legislature. Any subsequent adjustments are limited to **critical and unanticipated** needs and must comply with Budget Act control sections, provisions, other statutes, and the unanticipated cost funding process for the 2020-21 fiscal year.

Full Compliance and Timely Submittal of Requests are Mandatory

Each Agency Secretary and Department Director is responsible for compliance with the provisions of the Budget Act, as well as other administrative and statutory requirements controlling expenditures. Agency Secretaries and Department Directors must ensure that all program managers who exercise delegated powers over expenditures are thoroughly knowledgeable about all expenditure controls and the potential consequences for non-compliance. However, ***the ultimate responsibility for managing within appropriations rests with each Agency Secretary and Department Director.***

Departments are required to comply with the provisions of the Budget Act, **and must submit timely requests to the Department of Finance.** Timely submittal of requests gives the Legislature the time it needs to conduct a meaningful review of these requests. If the Executive Branch is to retain the needed flexibility to administer state programs, it must be respectful of the Legislature's role in appropriating funds. Full compliance with reporting requirements and restrictions enacted by the Legislature, including timely submittal, is mandatory.

In addition to the expenditure controls cited above, the Budget Act items or Control Sections described in Sections II through VIII of this Budget Letter (BL) contain provisions regarding the limitations and notifications required with respect to expenditure adjustments. Finance will not submit budget adjustments to the State Controller's Office that do not fully comply with these requirements.

Control Section (Section) 32.00 of the Budget Act and Government Code (GC) section [13324](#) provide that state officers **are expressly forbidden** to make any expenditure in excess of their appropriation.

Any officer or employee, except those specified in Section 32.00, who creates any indebtedness in excess of their appropriation, can be held personally liable for the amount of such unlawful indebtedness. Departments must inform Finance promptly if they become aware of a funding shortage situation.

II. ITEM 9840—FUNDING FOR CONTINGENCIES OR EMERGENCIES

Item 9840 of the 2020 Budget Act details the process for unanticipated cost funding. Requests to fund unanticipated costs made pursuant to this item are limited to unanticipated expenses incurred during the 2020-21 fiscal year for an existing program. Unanticipated costs may be funded through an allocation from the 9840 items or through a supplemental appropriations bill. In either situation, the request must comply with the provisions of the 9840 items. Please refer to the 9840 items in the Budget Act for specific requirements related to unanticipated cost funding.

A transfer of approved funds from Item 9840 shall not be authorized until 30 days after the Director of Finance provides written notification to the Legislature.

III. ITEM 9850—LOANS FOR CONTINGENCIES OR EMERGENCIES

Item 9850 of the 2020 Budget Act provides one method for departments to obtain a small loan to meet short term cash flow needs. The total amount available in the item for 2020-21 is \$2,500,000.

Typically, this type of loan is needed because of delays in collecting reimbursements or other receivables; however, departments should make every effort to collect amounts due timely to avoid a cash shortage.

Each request must comply with the provisions of Item 9850, and generally, a loan is not authorized until 30 days after the Director of Finance provides written notification to the Legislature.

IV. SECTION 8.50—FEDERAL FUNDS

Section 8.50 expresses legislative intent that applications made by state agencies for federal funds shall be for the maximum amount allowable under federal law. In addition, this section appropriates unanticipated amounts received from the federal government, subject to provisions of the Budget Act that apply to the expenditure of these amounts, including Section 28.00 (see Section 28.00 of the Budget Act for specific reporting requirements). Section 8.50 contains legislative reporting requirements if federal funds for block grants or any budget item receiving federal funds are reduced by more than 5 percent of the amount appropriated in the Budget Act.

V. SECTION 26.00—INTRASCHEDULE TRANSFERS

Section 26.00 authorizes the transfer of funds within an item of appropriation. Augmentations of any line of any schedule are limited by amount or percentage, as specified. In addition, transfers may not establish a new program, project, or function. Any transfer in excess of \$200,000 requires a 30-day advance notification letter to the Legislature.

VI. SECTION 28.00—ADDITIONAL FUNDS RECEIVED FROM NON-STATE SOURCES

Section 28.00 authorizes Finance to approve the expenditure of unanticipated funds to be received from federal, local governments, or any other non-state entity. However, it does not provide authority to create a new item of appropriation (Section 8.50 provides authority to appropriate unanticipated federal funds). Regardless of the source of the additional funding, any augmentation that exceeds either \$400,000 or 10 percent of the amount available for expenditure in the affected program, project, or function must be reported to the Legislature and may not be authorized until 30 days after the notification. Therefore, no proposed expenditure may be made from any additional funds reported in a Section 28.00 letter from Finance to the Legislature until the notification period has elapsed.

This reporting requirement does not apply to federal funds related to caseload increases in the Medi Cal, CalWORKs, and Supplemental Security Income/State Supplementary Payment programs.

Augmentations for items where the Administration had knowledge to include in its current budget plan should not be submitted through Section 28.00. Additionally, augmentations for items that can be deferred to the subsequent budget year should be included in the Administration's 2021-22 budget proposals.

To be considered for an augmentation, departments are required to either: (1) notify Finance within 45 days of receiving official notice of the availability of additional, unanticipated federal or non-state funds, or (2) explain in writing to Finance why the notification was infeasible or impractical. In either case, the department must provide Finance a copy of the official notice of fund availability. If a department expends funds without proper approval, it will be required to absorb such expenditures within its existing appropriations or sponsor legislation to authorize the expenditure.

VII. SECTION 28.50—ADDITIONAL FUNDS RECEIVED FROM STATE SOURCES

Section 28.50 authorizes Finance to approve a state department's expenditure of money received as reimbursement from another state department. Finance approvals that exceed \$200,000 must be reported to the Legislature and may not be authorized until 30 days after the notification. However, if the funding for the department providing the reimbursements has been approved by the Legislature, these approvals are considered technical in nature and are authorized in Section 1.50 of the Budget Act.

VIII. SECTION 35.35—SHORT-TERM CASH LOANS

Section 35.35 authorizes Finance to approve a short-term loan to meet cash needs for a state department affected by the implementation of FISCAL. Departments must make every reasonable effort to promptly collect reimbursements or amounts payable from other funds, or collect the amounts in advance. Payments between departments may be made by transferring funds pursuant to GC section [11255](#).

Additional technical guidelines for Sections 8.50, 26.00, 28.00, and 28.50 are available in the [Budget Analyst Guide](#) under [Commonly Used Control Sections to Revise Budgets](#).

Please contact your Finance Budget Analyst if you have any questions regarding expenditure authorization controls or the above mandated reporting requirements.

/s/ Richard Gillihan

RICHARD GILLIHAN
Chief Operating Officer